



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE RATLOU LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for a difference of R7 674 045 between the asset register and the financial statements due to a lack of proper accounting records. Furthermore, property, plant and equipment of R2 266 269 was incorrectly recognised



as repairs and maintenance due to a lack of proper accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment of R183 812 482 disclosed in the statement of financial position and note 21 and depreciation and amortisation of R 7 238 383 disclosed in the statement of financial performance and note 11 to the financial statements, was necessary.

Payables from exchange transactions

7. The municipality did not have adequate systems to maintain records of payables from exchange transactions for goods and services received but not yet paid for, which resulted in payables from exchange transactions being overstated by R16 077 073, property plant and equipment overstated by R10 522 750 and receivables from exchange transactions overstated by R5 554 323. In addition, I was unable to obtain sufficient appropriate audit evidence for payables from exchange transaction of R4 062 185 due to a lack of proper record keeping. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade payables from exchange transaction of R22 862 523 disclosed in note 23 to the financial statements, was necessary.

Revenue

8. SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors* requires prior period errors to be adjusted retrospectively. As the municipality did not correct the prior period error relating to property rates due to a lack of proper accounting records, prior year property rates was understated by R3 781 645 and receivables from non-exchange transactions were understated by R4 540 068 (2013:R11 863 525). Additionally, there was a resultant impact on the accumulated surplus.
9. The municipality did not recognise all revenue from conditional grants when the conditions of these grants were met in accordance of SA Standards of GRAP, GRAP 23, *Revenue from non-exchange transactions* due to lack of proper accounting records. Consequently, the revenue from conditional grants received and property, plant and equipment were understated by R2 479 713 respectively.

Commitments

10. The municipality did not disclose all infrastructure commitments as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment* due to a lack of proper record keeping. Capital commitments of R3 240 926 were identified during the audit which were not included in capital commitments of R18 198 156 disclosed in note 32.1 to the financial statements. As the municipality did not quantify the full extent of the commitments, it was impracticable to determine the resultant understatement of commitments disclosed in note 32.1 to the financial statements.

Aggregation/accumulation of immaterial uncorrected misstatements

11. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the notes to the financial statements :
 - Unauthorised expenditure disclosed as R24 369 577 was understated by R2 618 492.
 - Irregular expenditure disclosed as R51 545 762 was understated by R436 283.

Cash flow statement

12. Taking into account the misstatements identified in the financial statements and set out in this report, I was furthermore unable to obtain sufficient appropriate audit evidence for a difference of R1 562 893 between the cash flow statement and various notes to the cash flow statement. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement and notes thereto was necessary.

Accumulated surplus

13. I was unable to obtain sufficient appropriate audit evidence for a difference of R6 700 341 (2013: R4 188 813) between the accumulated surplus and total net assets in the statement of financial position and the statement of changes in net assets, as the municipality did not maintain adequate records. I was unable to confirm the accumulated surplus and total net assets by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus and total net assets of R219 188 928 (2013:R179 483 807) respectively in the financial statements, was necessary.

Qualified opinion

14. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2014 and the financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP, the requirements of the MFMA and the DoRA.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Fruitless and wasteful expenditure

16. As disclosed in note 30.1 to the financial statements, fruitless and wasteful expenditure of R47 049 for the current year had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

17. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of Ratlou Local Municipality at, and for the year ended 30 June 2013.

Material impairment

18. As disclosed in note 16 and 17 to the financial statements, material impairments of R5 899 616 (2013: R7 938 413) was incurred as a result of the impairment of trade debtors.

Additional matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

22. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express

assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 1: Infrastructure development and service delivery welfare services on pages XX to XX
- Development priority 2: Local economic development on pages XX to XX
- Development priority 3: Spatial rationale on pages XX to XX

24. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

25. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

26. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. The material findings in respect of the selected development priorities are as follows:

Development priority 1: Infrastructure development and service delivery welfare services

Usefulness of reported performance information

28. I did not raise any material findings on the usefulness of the reported performance information for the selected development priorities.

Reliability of reported performance information

29. The National Treasury FMPPI requires that the municipality should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significant important targets with respect to development priority 1: Infrastructure development and service delivery welfare services are not reliable when compared to the source information and/or evidence provided. This was due to the lack of frequent review of validity of reported achievements against source documentation.

Development priority 2: Local economic development

30. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Development priority 3: Spatial rationale

31. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matters

32. I draw attention to the following matters:

Achievement of planned targets

33. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the

material findings on the reliability of the reported performance information for the selected development priority reported in paragraph 29 of this report.

Unaudited supplementary information

34. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report thereon.

Compliance with legislation

35. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

37. The performance management system and related controls were not maintained as required by sections 38 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the Municipal planning and performance management regulations, as there were inadequate reviews of reported performance targets.

Expenditure management

38. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent unauthorised, irregular or fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

40. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Asset management

41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

42. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Liability management

43. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Audit committee

44. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

45. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by regulation 14(4)(a)(iii) of the Municipal planning and performance management regulations.

Procurement and contract management

46. The preference point system was not applied for all procurements of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and Supply Chain Management (SCM) regulation 28(1)(a).
47. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
48. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality, failed to disclose such interest as required by SCM regulation 46(2).
49. Awards were made to providers whose directors are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Waste management

50. The municipality operated its waste disposal site without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).
51. The municipality's operational activities at its waste disposal site and wastewater treatment facility contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA.
52. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the National Water Act, 1998 (Act No. 36 of 1998) (NWA) and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.
53. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

54. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

55. Leadership did not adequately exercise appropriate oversight over financial and performance reporting and related internal controls, while decisive actions to address risks relating to the achievement of complete and accurate financial and performance reporting were not effectively implemented.

Financial and performance management

56. Management did not adequately implement effective controls to ensure that information presented in the financial statements is accurate and reliable before submission for audit. Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not properly prepared. Further, management did not adequately review and monitor compliance with applicable laws and regulation.

Governance

57. Despite the internal audit performing their planned audits at the municipality, they had limited impact due to the lack of implementation of their recommendations by the municipality. Furthermore, the audit committee did not adequately provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor General

Rustenburg

30 November 2014



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